



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT OF THE TRANSPORTATION CABINET**

**Made as Part of the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 1998**

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## **CONTENTS**

	<b><u>Page</u></b>
<b><u>INTRODUCTION</u></b>	
Audit Approach.....	1
List Of Abbreviations/Acronyms Used In This Report .....	2
<b><u>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u></b>	
Schedule Of Expenditures Of Federal Awards .....	5
Notes To The Schedule Of Expenditures Of Federal Awards.....	6
<b><u>REPORT ON COMPLIANCE AND INTERNAL CONTROL</u></b>	
Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards .....	11
<b><u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u></b>	
Section 1 - Summary Of Auditor's Results.....	17
Section 2 - Financial Statement Findings And Questioned Costs .....	19
Section 3 - Federal Award Findings And Questioned Costs.....	20
<b><u>Reportable Conditions Relating To Internal Control And/Or Compliance:</u></b>	
<b><u>FINDING 98-TC-2: The Transportation Cabinet Should Reimburse The Federal Government For Relocation Assistance Payments That Were Incorrectly Billed .....</u></b>	
<b><u>Other Matters Relating To Internal Control And/Or Compliance:</u></b>	
<b><u>FINDING 98-TC-1: The Transportation Cabinet's Division Of Right Of Way Should Resume The Use Of Property Ledgers For Recording Purchases And Sales Of Real Property .....</u></b>	
<b><u>FINDING 98-TC-3: The Transportation Cabinet's Division Of Right Of Way Should Maintain Proper Documentation For Reimbursements And Agreements With Local Public Agencies .....</u></b>	
<b><u>FINDING 98-TC-4: The Transportation Cabinet Should Conduct Inspections And Prepare Progress Reports For Utility Company Projects .....</u></b>	
<b><u>FINDING 98-TC-5: The Transportation Cabinet Should Maintain Proper Documentation For Construction Projects.....</u></b>	
<b><u>FINDING 98-TC-6: The Transportation Cabinet's External Audit Branch Should Perform Complete Audits On Utility Company Project Payments.....</u></b>	
<b><u>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</u></b>	
Summary Schedule Of Prior Audit Findings .....	37



## **INTRODUCTION**



**TRANSPORTATION CABINET**  
**INTRODUCTION**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**Introduction**

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

**Audit Approach**

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1998, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards (excluding state universities, as discussed below) in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Transportation Cabinet, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Transportation Cabinet administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

The Auditor of Public Account's office conducted the audit of the internal control, focusing on the following objectives:

- Determining if the Transportation Cabinet has an internal control to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**TRANSPORTATION CABINET  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**List Of Abbreviations/Acronyms Used In This Report**

APA	Auditor of Public Accounts
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
FHWA	Federal Highway Administration
FY	Fiscal Year
GAS	Governmental Auditing Standards
KAR	Kentucky Administrative Regulations
KRS	Kentucky Revised Statutes
NA	Not Applicable
OMB	United States Office of Management and Budget
SHA	State Highway Administration
TC	Transportation Cabinet
US	United States



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**TRANSPORTATION CABINET  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 1998**

STATE AGENCY FEDERAL GRANTOR		PASS-THROUGH GRANTOR'S #	EXPENDITURES	
CFDA #/ PROGRAM TITLE			CASH	NON-CASH
<b><u>U.S. Department of Transportation</u></b>				
<b>Direct Programs:</b>				
20.106	Airport Improvement Program	NA	\$ 180,315	
20.205	Highway Planning And Construction (Note 2) (Note 3)	NA	326,307,796	
20.218	Motor Carrier Safety Assistance Program	NA	1,279,932	
20.308	Local Rail Freight Assistance	NA	32,378	
20.505	Federal Transit Technical Studies Grants (Note 4)	NA	318,436	
20.507	Federal Transit Capital and Operating Assistance Formula Grants (Note 4)	NA	119,606	
20.509	Public Transportation For Nonurbanized Areas (Note 4)	NA	3,547,829	
20.513	Capital Assistance Programs For Elderly Persons and Persons with Disabilities (Note 4)	NA	516,345	
<b>Passed-Through From Department of State Police:</b>				
20.600	State and Community Highway Safety	FIS-95-05 FRS-97-005	24,609	
<b><u>U.S. Department of Energy</u></b>				
<b>Passed-Through From Natural Resources and Environmental Protection Cabinet:</b>				
81.041	State Energy Program	MA 19279	2,800	
<b><u>U.S. Federal Emergency Management Agency</u></b>				
<b>Passed-Through From Department of Military Affairs:</b>				
83.544	Public Assistance Grants	FEMA-1163	1,500,775	
<b>Total Transportation Cabinet</b>			<u>\$ 333,830,821</u>	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**TRANSPORTATION CABINET  
NOTES TO THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1998**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Purpose of the Schedule** – OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, “Federal financial assistance “ . . . means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to . . . individuals . . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying Schedule includes the cash federal financial assistance programs; the Transportation Cabinet had no noncash federal financial assistance programs for the year ended June 30, 1998.

**Reporting Entity** – The Transportation Cabinet is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth of Kentucky entity for financial reporting purposes. The accompanying Schedule of Expenditures of Federal Awards of the Transportation Cabinet presents only that portion of the federal financial assistance of the Commonwealth of Kentucky that is attributable to the transactions of the Transportation Cabinet.

**Basis of Accounting** – The cash expenditures on the accompanying Schedule of Expenditures of Federal Awards are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

**TRANSPORTATION CABINET  
NOTES TO THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards –Cash Assistance Programs may not be directly traceable to the general-purpose financial statements in all cases.

**Inter-agency Activity** – Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Transportation Cabinet's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency-recipient) and passed through to another state agency (secondary state agency-subrecipient) where the moneys are expended. This inter-agency activity is reported in the Schedule of Expenditures of Federal Awards as follows:
  - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
  - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Transportation Cabinet's schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by the Transportation Cabinet and used to purchase goods or services from another state agency are reported in the Transportation Cabinet's schedule only as an expenditure.

Commonwealth of Kentucky, a Type A program must have expended over \$12 million. All other programs are Type B programs.

**Note 2 – Type A Program**

Under the provision of OMB Circular A-133, federal programs must be defined as Type A or Type B programs. For the Statewide Single Audit of the Transportation Cabinet, a Type A program must have expended over \$12 million. All other programs are Type B programs. The Transportation Cabinet had one cash program that met the Type A major program definition for the year ended June 30, 1998:

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
20.205	Highway Planning and Construction	\$326,307,796

**TRANSPORTATION CABINET  
NOTES TO THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Note 3 – Highway Planning and Construction Program**

The information reported for this program represents the activity of all open projects during the year ended June 30, 1998. These projects were funded from several apportionments. Apportionment refers to federal statutorily prescribed division or assignment of funds. The expenditures reflected on this schedule include expenditures for advance construction projects which are not yet under agreement with the Federal Highway Administration.

Program Income - The Highway Planning and Construction Program earned program income of \$62,351 in the year ended June 30, 1998. This income was earned in the Right-of-Way phase through the sale and rental of real property. Income earned in this manner was classified as a negative expenditure resulting in a reduction to federal expenditures for the current year.

Prior Year Refunds - Expenditures for the Highway Planning and Construction Program were shown net of any prior year refunds, resulting from a reimbursement of prior year expenditures. Prior year refunds totaled \$944,397 for the year ended June 30, 1998.

**Note 4 - Subrecipient Activity**

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients:

<b>CFDA #</b>	<b>Program Name</b>	<b>Amount Sent</b>
20.505	Federal Transit Technical Studies Grants	\$ 318,436
20.507	Federal Transit Capital and Operating Assistance Formula Grants	119,606
20.509	Public Transportation For Nonurbanized Areas	3,547,829
20.513	Capital Assistance Program For Elderly Persons And Persons With Disabilities	516,345
	Total	\$ 4,502,216

**REPORT ON COMPLIANCE AND INTERNAL CONTROL**







Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Mr. James C. Codell, III, Secretary  
Transportation Cabinet

Report On Compliance With Requirements Applicable  
To Each Major Program And On Internal Control Over Compliance In Accordance  
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Transportation Cabinet, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The Transportation Cabinet's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Transportation Cabinet's management. Our responsibility is to express an opinion on the Transportation Cabinet's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Transportation Cabinet's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Transportation Cabinet's compliance with those requirements.

In our opinion, Transportation Cabinet complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Mr. James C. Codell, III, Secretary

Transportation Cabinet

Report On Compliance With Requirements Applicable To Each Major Program And

On Internal Control Over Compliance In Accordance With OMB Circular A-133

And On The Schedule Of Expenditures Of Federal Awards

(Continued)

### Internal Control Over Compliance

Management of the Transportation Cabinet is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Transportation Cabinet's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal controls used in administering federal financial assistance did not include certain controls relating to the Transportation Cabinet. The consideration of these controls was made by other auditors, whose reports thereon have been furnished to us, and our report presented herein, insofar as it relates to the Revenue Cycle, Purchases/Disbursements, and Payroll Cycle, is based solely or partly on the reports of the other auditors.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Transportation Cabinet's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 98-TC-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe none of the reportable conditions described above is a material weakness. However, we noted other matters involving internal control over compliance, which we have described to management of the Transportation Cabinet in the accompanying Schedule of Findings and Questioned Costs of this report.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Mr. James C. Codell, III, Secretary  
Transportation Cabinet  
Report On Compliance With Requirements Applicable To Each Major Program And  
On Internal Control Over Compliance In Accordance With OMB Circular A-133  
And On The Schedule Of Expenditures Of Federal Awards  
(Continued)

Schedule Of Expenditures Of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards of the Transportation Cabinet is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the Commonwealth of Kentucky's general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Commonwealth of Kentucky's general-purpose financial statements.

As described in Note 1, the Schedule of Expenditures of Federal Awards of the Transportation Cabinet is intended to present only that portion of the expenditures of federal awards of the Commonwealth of Kentucky that is attributable to the transactions of the Transportation Cabinet.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the Schedule of Expenditures of Federal Awards of the Transportation Cabinet is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards of the Transportation Cabinet is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork complete –  
July 12, 1999

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**TRANSPORTATION CABINET**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statement Accounts And Schedule Of Expenditures Of Federal Awards**

Financial Statement Accounts: We issued a qualified opinion on the Commonwealth of Kentucky’s general-purpose financial statements as of and for the fiscal year ended June 30, 1998, because we were unable to verify evidence regarding year 2000 disclosures. The Transportation Cabinet was not included in our audit procedures of the general-purpose financial statements. The Transportation Cabinet was audited by an outside CPA firm, whose report was furnished to us, of which the results were included in the general-purpose financial statements.

Schedule of Expenditures of Federal Awards: We have issued a qualified opinion on the Transportation Cabinet’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles as described in note 1 of the schedule. The opinion was issued in relation to the commonwealth’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: The Transportation Cabinet’s financial statement audit was performed by the outside CPA firm PricewaterhouseCoopers LLP.

Compliance: In relation to the audit of the Transportation Cabinet’s Schedule of Expenditures of Federal Awards, the results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

**Federal Awards**

Internal Control Over Compliance: Our consideration of the Transportation Cabinet’s internal control over compliance disclosed one reportable condition. We do not believe that this condition constitutes a material weakness. In addition, our consideration of the Transportation Cabinet’s internal control over compliance disclosed five other matter conditions.

Compliance: We have issued an unqualified opinion on the Transportation Cabinet’s compliance with the requirements applicable to the Highway Planning and Construction Program.

**Identification Of Major Program Audited**

OMB Circular A-133 defines a major program as “a Federal program determined by the auditor to be a major program in accordance with section \_\_.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section \_\_.215 (c).” Section \_\_.520 states that “The auditor shall use a risk-based approach to determine which Federal programs are major programs.”

The following is a list of Type A programs audited:

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditure</b>
20.205	Highway Planning and Construction	\$326,428,542

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS (CONTINUED)**

**Dollar Threshold Used To Distinguish Between Type A And Type B Programs**

The dollar threshold used to distinguish between Type A and Type B Programs was \$12 million.

**Auditee Qualified As Low-Risk Auditee?**

The Commonwealth of Kentucky did not qualify as a low-risk auditee.



**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

There were no reportable findings from Transportation Cabinet's financial statement audit conducted by PricewaterhouseCoopers LLP.

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Reportable Conditions Relating To Internal Control And/Or Compliance:**

**FINDING 98-TC-2: The Transportation Cabinet Should Reimburse The Federal Government For Relocation Assistance Payments That Were Incorrectly Billed**

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Real Property Acquisition and Relocation Assistance

Amount of Questioned Costs: \$24,000

The Transportation Cabinet's *Relocation Assistance Guidance Manual* (Section 62-04.0630 B "Revisions to Replacement Housing Amount") requires that the replacement housing payment (which includes the Purchase Supplement) be recomputed if the acquisition price for the land parcel is changed.

Our audit testing of Relocation Assistance revealed an administrative settlement was made that increased the acquisition cost for a parcel of land in Daviess County. Cabinet personnel had informed the homeowner that the administrative settlement would not affect her Replacement Housing Payment-Purchase Supplement. The homeowner executed a deed of conveyance for the property after being told this.

The Cabinet erred in telling the homeowner the Replacement Housing Payment-Purchase Supplement would not be changed by the administrative settlement. Because of this error, the Relocation Assistance Branch Manager prepared a memorandum to the Director of Right of Way and Utilities to request the entire amount of the Replacement Housing Payment-Purchase Supplement be paid with state funds (no federal participation in the payment). The Right of Way and Utilities Division Director signed the memorandum to approve this action.

However, the Payment Summary was not annotated to indicate only state funds should be used for the payment. As a result, the federal government was billed for 80% (the federal participation rate for this project) of the \$30,000 payment, or \$24,000.

The federal billing for this Replacement Housing Payment-Purchase Supplement was \$24,000 instead of \$0.

Section 62-04.0630 B of the *Relocation Assistance Guidance Manual*, "Revisions to Replacement Housing Amount" states:

When an adjustment is made in the fair market value offer to the owner occupant (administrative settlement, no appeal from the Commissioners' Award or Jury Award, etc.), the replacement housing payment must be recomputed based on the new acquisition price.

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Reportable Conditions Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-2: The Transportation Cabinet Should Reimburse The Federal Government For Relocation Assistance Payments That Were Incorrectly Billed**

49 CFR 24.601 (b) discusses certification of a State agency and states:

A federal agency that has accepted a State agency's certification . . . should withhold its approval of any of its federal financial assistance to any project, program, or activity, in progress or to be undertaken by such State agency, if it is found by the federal agency that the State agency has failed to comply with the applicable State law and regulations implementing those provisions . . .

**Recommendation**

The Right of Way and Utilities Division should investigate procedures and methods to appropriately flag files and forms for special handling in unusual circumstances such as this.

**Management's Response and Corrective Action Plan**

*The Audit Report accurately reflects a failure to appropriately indicate a Relocation Assistance Payment was to be from State Funds only and was billed to the Federal Highway Administration. The error was duly noted during the audit and had since been corrected with credit given to the federal project funds.*

*Appropriate notes were made on the parcel files when submitted for payment. However, the project funds were insufficient to request immediate payment. When funds were ultimately added to the project, the note regarding "only state funds" was overlooked and incorrectly billed.*

*Current Policy and Procedures should be adequate to avoid a reoccurrence of this error.*

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance:**

**FINDING 98-TC-1: The Transportation Cabinet's Division Of Right Of Way Should Resume The Use Of Property Ledgers For Recording Purchases And Sales Of Real Property**

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205-Highway Planning & Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Not Applicable

Amount of Questioned Costs: None

During our audit testing of the acquisition (purchase) of Real Property for Right of Way and testing of disposition (Sale) of Excess/Surplus Right of Way Real Property, it showed certain problems related to the use of the Property Ledgers to record the purchase and sale of real property. Historically, the Right of Way Division has recorded the purchase and sale of real property in Property Ledgers: manual ledgers for the parcels in projects let before 1995 and in a computerized ledger for projects let from 1995 on.

During our audit testing of Acquisition of Real Property, the following was noted:

- Of the 40 parcel purchases tested, 1 parcel purchase had not been entered into the Property Ledger of the Right of Way Division to signify that the property had been transferred to state ownership.

During our audit testing of Disposition of Excess/Surplus Right of Way Real Property, the following was noted:

- Of the 37 parcel sales tested, 5 did not have the sale of property entered in the Property Ledger of the Right of Way Division to signify that the property was no longer owned by the state.

The Cabinet no longer maintains a Property Ledger system that reflects the current inventory of real property purchased for the Right of Way phase of construction projects and currently owned by the state.

Information that was accumulated and summarized in the Property Ledgers is no longer readily available. In order to research the ownership of a parcel, the Cabinet will have to rely on time-consuming research of project records at Central Office, district offices, courthouses, and state storage archives. This will become increasingly cumbersome in the future, as surplus/excess parcels in projects are sold many years after the completion of a project.

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-1: The Transportation Cabinet's Division Of Right Of Way Should Resume The Use Of Property Ledgers For Recording Purchases And Sales Of Real Property (Continued)**

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In addition, the Cabinet will not have a concise listing of the information found in the property ledger for each project to include the following information on each parcel:

- Parcel numbers
- Quantity of land purchased
- Grantor purchased from
- Date purchased
- Courthouse deed recording information
- Amount paid, as well as the check number, check date, and pay-in voucher number
- Credits associated with that parcel (later sale of the property and/or improvements on the property with the date and the amount, refunds on condemnation awards, etc).

Good accounting controls require that an entity maintain a record of its assets to include a CURRENT inventory of the real property that is owned.

49 CFR §18.20 (a) 2 states that "*Accounting Records*-Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. *Internal control*-Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

200 KAR 6:015 "Real Property Inventories" states: "The Division of Real Properties of the Finance and Administration Cabinet shall be responsible for maintenance of inventory records for all state-owned land and buildings. The inventory shall be supplied to the Division of Real Properties by each agency. The report will be as of June 30<sup>th</sup> and received by the Division of Real Properties no later than September 30<sup>th</sup>. All inventory records shall be kept current."

**Recommendation**

We recommend the Cabinet immediately resume the use of its Property Ledgers for recording the purchases and sales of real property. An attempt should be made to reconstruct the information that has been lost to date and enter it into the Property Ledgers. This can be facilitated by review of the Receiving Reports, Credit Vouchers, and Miscellaneous Sales Listings prepared by the Right of Way Records and Billing Section before this information is archived or destroyed.

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-1: The Transportation Cabinet's Division Of Right Of Way Should Resume The Use Of Property Ledgers For Recording Purchases And Sales Of Real Property (Continued)**

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**Management's Response and Corrective Action Plan**

*The Division of Right of Way discontinued the use of the "Property Ledger" in early 1999. The ledger had been maintained for many years as a quick reference but is not identified in the Division's Policy and Procedure Manual as a required document.*

*Project and Parcel File documents contain all the data recorded in the "Property Ledger". The information recorded is a duplication of information and required personnel time to keep the information up-dated. With the reduction of personnel, it felt the duplication of information added little or no value to the Cabinet's records.*

*Project expenditures, authorizations, obligations, and unobligated balances are maintained through the Cabinet's Division of Accounts. Access to those accounting records is available to the Division through personal computers. These accounting records coupled with the project files are felt to meet requirements of 49 CFR 18.20 (a) 2.*

*200 KAR 6:015 "Real Property Inventories" is in reference to properties acquired for purposes other than "Highway Use". The Division of Real Property maintains inventories of these properties. Rights of Way acquired for highway projects are a part of the Cabinet's Highway Infrastructure. These properties are identified by the Official Highway Plans on record with the Cabinet with information relative to the acquisition recorded in the Project Files. Deeds are maintained in the parcel file and recorded in the County Clerk's Offices.*

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-3: The Transportation Cabinet's Division Of Right Of Way Should Maintain Proper Documentation For Reimbursements And Agreements With Local Public Agencies**

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning And Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

During our testing of the Use of Local Public Agencies for the Acquisition of Right of Way, we noted problems with documentation of the expenditures being reimbursed and with maintaining the agreements that document the understandings between the Transportation Cabinet and the Local Public Agency.

There were 15 payments in 9 projects that were tested. The following was noted during our testing:

- For one of the 15 payments, there was no Statement of Charges nor documentation of any sort related to the payment
- For 4 of the 9 projects tested, there was no project agreement in the file.

Proper documentation of reimbursed expenses helps to ensure that funds are expended for the allowed purposes.

Project agreements that are missing are not available for use when expenditures are being evaluated for various criteria. These agreements detail the obligations and responsibilities of both parties to each other.

Good accounting controls require that an entity verify expenses before making reimbursements for them.

Legally binding agreements must be retained in order for the Cabinet to ensure that obligations to and by the Cabinet are met.

49 CFR §18.20 (a)2 states that "*Accounting Records*-Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. *Internal control*-Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-3: The Transportation Cabinet's Division Of Right Of Way Should Maintain Proper Documentation For Reimbursements And Agreements With Local Public Agencies (Continued)**

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**Recommendation**

We recommend the Cabinet locate the missing project agreements and place them in the proper files.

All reimbursements to local public agencies for acquisition of real property for Right of Way projects should be properly documented with the appropriate billing information and supporting documentation. If the Statement of Charges has merely been mislaid, it should be located and returned to the file. Claims for reimbursement without proper documentation must not be paid.

**Management's Response And Corrective Action Plan**

*Project Agreements are written months and even years in advance of a Right of Way Acquisition Project. Most often, the agreements are written without any input from the applicable divisions and prior to being added to the Six-Year Plan and being assigned an Item Number. If copies are provided to the applicable division, they cannot be filed to an appropriate project.*

*You have identified the one payment for which there is no Statement of Charges nor documentation related to the payment on the Jefferson County, City of Louisville's Riverfront Development Project.*

*The Statement of Charges and necessary documentation is available. The payment request had been submitted by the City of Louisville with other documents on another project. These Statement of Charges had been filed in that project file. They are now filed with the correct project.*

*The Division's Acquisition and Administrative Branch Manager is responsible for this area of the Division's operation. Personnel were reminded of the importance of proper filing upon notification from the Audit Report that this documentation could not be located.*



**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-4: The Transportation Cabinet Should Conduct Inspections And Prepare Progress Reports For Utility Company Projects**

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning And Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Activities Allowed or Unallowed; Allowable Costs Cost Principles

Amount of Questioned Costs: None

Each utility company signs an agreement with the Transportation Cabinet for each project. Procedures are in place to conduct Progress/Inspection reports, also known as TC 69-7 reports, on the work completed throughout the duration of the project. It is determined in the agreement as to who (either the Cabinet or the Utility/City) is responsible for contracting a person to do such progress reports. Either way, the Cabinet has the ultimate responsibility for making sure that the inspections take place and the TC 69-7 reports are completed. The purpose of the Progress/Inspection reports is to verify that the amount of labor and material the Cabinet is being billed is accurate.

The auditor tested 27 utility company projects. During testing of Utility Project Files, the auditor noted one incidence in which no TC 69-7 reports were completed throughout the duration of a utility project. This incident occurred in the Campton-Stillwater Road project, federal number 00BRO01911003, UPN Number 11Y1190191004-005009U.

The lack of inspections can lead to inaccurate billings to both the State and the FHWA, which can cause the Cabinet to expend unnecessary amounts of monies. This lack of inspection indicates that a control weakness exists.

Proper internal controls dictate that projects are to be inspected and progress reports shall be issued to ensure the labor and materials billed to a project are accurate.

To be more specific, the agreement for this project indicates that it is the ultimate responsibility of the Cabinet to assure that an inspection takes place. The agreement states: “Whereas, it is to the best interests of the City and the Cabinet for the City to make the necessary removal, alterations or adjustments of its existing facilities with the City’s regular construction and maintenance forces, or by a contractor, prior approved by the Cabinet, paid under a contract let by the City, with 100% borne by the Cabinet.”

**Recommendation**

We recommend the Utilities and Rails Branch strengthen their control over the procedures to ensure that all Utility Project files contain at least one TC 69-7 (Progress/Inspection) report prior to submission of payment to ensure proper billings are being received.

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-4: The Transportation Cabinet Should Conduct Inspections And Prepare Progress Reports For Utility Company Projects (Continued)**

**Management's Response And Corrective Action Plan**

*This is in response to the Federal Compliance Audit citing a project in District 10 for not completing a required Utility Progress Report.*

*At the time this project was in the Utility Phase, the District's Utility Office had the largest number of active projects in recent years. The staffing level was not adequate for the number of projects. Since the period when this project was active, the district has employed an additional agent for the Utility Office. This individual has the responsibility for providing regular project inspections and Utility Progress Reports.*

**FINDING 98-TC-5: The Transportation Cabinet Should Maintain Proper Documentation For Construction Projects**

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning And Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Activities Allowed or Unallowed; Allowable Costs Cost Principles;  
Special Tests and Provisions

Amount of Questioned Costs: None

As part of our audit of the Transportation Cabinet for FY 98, we tested a sample of 40 construction projects. Each project file has three main folders – Federal Aid Folder, Contracts-Change Orders Folder, and Contractor Estimates Folder located in the Transportation Cabinet's file room. During our testing we noted:

- One of the 40 construction projects was missing the Federal Aid, Contracts-Change Orders, and Contractor Estimates folders. According to the agency, these three folders had been sent to a district office.
- Two of the 40 construction projects were missing the Contracts-Change Orders and Contractor Estimates folders.
- One of the 40 construction projects was missing the Contract/Bid Proposal from the Contracts-Change Order Folder.
- Two of the 40 construction projects were missing the "Date Work to Begin" letter from the Contracts-Change Order Folder.

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-5: The Transportation Cabinet Should Maintain Proper Documentation For Construction Projects (Continued)**

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These missing files represent lack of proper documentation and recordkeeping, and control weaknesses.

In addition, we examined change orders for each available construction project file to determine whether the required FHWA approval was obtained. Only those projects relating to National Highway and Interstate Projects are required to have FHWA approval (verbal or written). During our testing, we reviewed a total of 228 change orders, of which only 138 required FHWA approval. Of those 138 change orders, 16 did not have any indication of the required FHWA approval. According to the agency, the approvals were probably obtained verbally, but not noted on the change orders.

Our test also showed that one contractor worked five days beyond the allowable working days and no liquidated damages were assessed. According to the agency, the contractor was delayed by the state's failure to get timely right of way approval and thus did not assess liquidated damages. However, there was no documentation or evidence in the files as to why liquidated damages were not assessed.

Since the folders affecting three construction projects are absent from the Transportation's file room, any questions about the projects, whether from the public through an open records request, the auditor's office, or Transportation Cabinet personnel, could not be answered. Without the proper files and documentation, the agency may not be in compliance with 23 CFR 9.1, 635.112, or 635.121.

Since the "Date Work to Begin" letters and contract bid proposal were missing, we could not determine if the construction costs on the voucher we reviewed were incurred subsequent to the date of the "Date Work to Begin" letter and the date of the contract; therefore, the agency may not be in compliance with 23 CFR Part 1 Section.9 (a).

If documentation is not maintained on the reason for waiving liquidated damages, the state may not receive liquidated damages when appropriate. The state may have been owed liquidated damages by the contractor for the project examined during our test. Since no documentation was kept, we have no way of determining if the damages were waived correctly.

Good internal controls dictate that proper documentation be maintained in order to verify appropriate costs were charged and the maximum time was not exceeded for construction projects.

The 23 CFR 1.9 (a) states, in part, "Federal funds shall not be paid on account of any cost incurred prior to authorization by the administrator to proceed with the project or part thereof involving such cost."

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-5: The Transportation Cabinet Should Maintain Proper Documentation For Construction Projects (Continued)**

23 CFR Part 635 Section 112 (a) states, “No work shall be undertaken on any federal-aid project, nor shall any project be advertised for bids, prior to the authorization by the division administrator.” Section 112 goes on to state specific requirements which we were unable to verify due to the absence of the folders.

The 23 CFR Part 635 Section 121 (a) states, “The SHA [State Highway Administration] should have adequate written procedures for the determination of contract time.” Subsection (b) continues by stating, “The Contract time extensions granted by a SHA shall be subject to the concurrence of the Division Administrator and will be considered in determining the amount of federal participation. Contract time extensions submitted for approval to the Division Administrator, shall be fully justified and adequately documented.”

**Recommendation**

We recommend the Cabinet ensure:

- All files are kept in the file room. If a district office needs a file for a lawsuit or other purpose for an extended period of time, copies of the files should be made and sent to the district. If the original document is required, the file room should keep a copy of the entire file.
- The agency remind the various districts to obtain and document FHWA approval of change orders.
- The agency document in the file the reason liquidated damages are not assessed, if owed.
- The agency include all “Date Work to Begin” letters for each construction project.

**Management's Response and Corrective Action Plan**

**FHWA approval for change Orders:**

*Sent e-mail on August 15, 1999 to all districts reminding to obtain FHWA verbal approval for all Interstate and NHS federal aid projects. This verbal approval should be noted on Change Order before submission to Central Office for approval.*

*On August 15, 1999, advised Central Office Construction to send copies of all Interstate and NHS federal aid change orders to FHWA for formal approval. This is to include projects that do not have verbal approval listed on change order.*

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-5: The Transportation Cabinet Should Maintain Proper Documentation  
For Construction Projects (Continued)**

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**Management's Response and Corrective Action Plan(Continued)**

*All projects found without FHWA approval were submitted by August 16, 1999.*

**Files:**

*A checklist will be utilized for all project files to ensure all critical documents are included before files submitted after final estimate payment to Division of Accounts.*

*Central Office, Division of Construction staff will be instructed in the importance of project files.*

*The Contractor Pay Estimate System (CPES) has electronic data containing Work Day Charges, Contract Pay estimates and critical dates. The only copy of pay estimate placed in the file is the Final Pay Estimate.*

*The "Date Work to Begin" letter from Contract Procurement is sent to the contractor, Division of Accounts, Division of Construction and District office. CPES electronic files are not available for payment by Construction until Division of Accounts has received the letter and released the files to Construction. No work can be paid until CPES files released.*

**Liquidated Damages:**

*The Construction Guidance manual clearly states that projects over contract time shall have "Contract Overtime\Liquidated Damage" report (TC63-26) submitted. This report shall include documentation any reason not to access agreed Liquidated damages.*

*The District office, Project Engineers and Central Office Final Estimate Section were sent e-mail on August 16, 1999 about policy on Contract Overtime\Liquidated Damages.*

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-6: The Transportation Cabinet’s External Audit Branch Should Perform Complete Audits On Utility Company Project Payments**

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning And Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: None

Compliance Area: Activities Allowed or Unallowed; Allowable Costs Cost Principles

Amount of Questioned Costs: None

The External Audit Branch audits utility company payments within a three-year period of the date the utility company receives final payment. There are three types of audits conducted by the External Audits Branch: Survey/Review, Desk/Exam, and Site Audit/Audit. Each type of audit is considered a different level (type) of audit. At each level, there are procedures conducted based upon both auditor’s judgment and a prepared audit program.

During our testing of 15 utility payment audits, the auditor noted several incidences in which the External Audit Branch’s audits were not properly completed.

- There were 2 incidents in which the Audit Program did not indicate that all areas of the audit had been addressed. The steps of the Audit Program should have some indication of review to verify that the proper procedures were performed during the audit.
- There were 11 incidents in which there was no evaluation of unallowable costs.

There was 1 incident in which there was no comparison of estimated and invoiced costs of project items and amounts.

Without adequately performing all procedures within the External Audit Branch, the FHWA and the state could possibly be expending unnecessary amounts of monies. This constitutes a lack of completeness, which indicates a control weakness.

Proper internal controls dictate that internal audits be completed in a thorough manner to ensure the accuracy of the reports.

Governmental Auditing Standards (GAS) state in Chapter 3, 3.29 “Auditors should use sound professional judgement in determining the standards that apply to the work to be conducted. The auditors’ determination that certain standards do not apply to the audit should be documented in the working papers.”

23 CFR 645.117 documents the costs that are / are not allowed for federal reimbursement.

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-6: The Transportation Cabinet's External Audit Branch Should Perform Complete Audits On Utility Company Project Payments (Continued)**

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**Recommendation**

We recommend the External Audit Branch strengthen their controls over the procedures to ensure that all required audit steps are completed to ensure the accuracy of their internal audits.

**Management's Response and Corrective Action Plan**

*We have reviewed the Auditor of Public Account's (APA) Record of Control Weakness or Record of Noncompliance and respond to its three findings, as follows:*

- 1) Our organizational philosophy has always emphasized strong quality control standards. Therefore, we agree with the APA's assertion that completeness of audit procedures is an important internal control. Accordingly, we will re-emphasize this principle with our staff and will include steps in our audit programs to insure that all pertinent audit procedures are addressed and appropriately noted. Our Audit Team Leader will be responsible for including in our audit program instructions to mark N/A whenever a step that is included in the index is not used in the audit. This corrective action plan was implemented on July 15, 1999.*
- 2) Although we continue to believe that our review engagements (formerly surveys) provide adequate evaluation of unallowable costs we agree to insert specific steps in our audit program addressing unallowable costs, as follows:*
  - Test the payments to Utility companies to determine if they were made in accordance with an FHWA approved agreement between the company and the SHA.*
  - Test to determine whether the payments do not include the costs of advertising, sales promotion, interest or charges for funds used, resource planning, research programs, issuing or otherwise handling stock, or other unallowable costs as specified by federal and state cost regulations.*

**TRANSPORTATION CABINET  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Other Matters Relating To Internal Control And/Or Compliance(Continued)**

**FINDING 98-TC-6: The Transportation Cabinet’s External Audit Branch Should Perform Complete Audits On Utility Company Project Payments (Continued)**

**Management's Response and Corrective Action Plan (Continued)**

*These steps have already been included in our audit program and will be fully implemented for FY 2000. Our Audit Team Leader will be responsible for the inclusion of these procedures into our program.*

- 3) The comparison of estimated to invoiced project costs is an analytical procedure used to help our auditors plan the scope of their work. Any omission of this procedure was either unintentional or considered, in the professional judgement of the auditor, to be unnecessary. Nevertheless, we will continue to stress the importance of this procedure with our staff. This comparison has been implemented for many years. We will attempt to ensure that the reviewer will insist that the step will be implemented.*

*The External Audit Branch is committed to fulfilling our mission statement of: “Performing timely and efficient audits in accordance with applicable audit standards and regulations in a manner appropriate for professionals representing the External Audit Branch of the Transportation Cabinet of the Commonwealth of Kentucky.”*



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**



**TRANSPORTATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

**Reportable**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-TC-51	The Transportation Cabinet Should Ensure The Federal Government Receives Its Share Of Proceeds When Real Estate Purchased With Federal Funding Is Sold	20.205	\$19,765	Transportation Cabinet has implemented a corrective action plan in FY 98. The questioned cost has been repaid in full to the federal government.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 97	97-TC-52	The Transportation Cabinet Should Deposit Sale Proceeds Timely	20.205	0	Corrective action plan was not implemented until after June 30, 1998.
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
None					
<i>(4) Audit finding is no longer valid:</i>					
None					

**TRANSPORTATION CABINET  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

**Other Matters**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-TC-1	The Transportation Cabinet Should Monitor Contractor Payroll Reports For Timely Submission And Review	20.205	0	Corrective action taken and implemented for FY 98.
FY 97	97-TC-3	Federal Aid Projects Should Be Advertised For Bid At Least 21 Days Before Letting Date And Be Authorized By FHWA	20.205	0	Corrective action taken and implemented for FY 98.
FY 97	97-TC-7	The Certification Of Materials Process Should Be Completed Timely	20.505	0	Corrective action taken and implemented for FY 98.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 97	97-TC-2	The Performance Of Compliance Inspectors Who Conduct The In-depth Reviews Of Wage And Hour Requirements Is Not Being Monitored	20.205	0	Corrective action plan was partially implemented in FY 98.
FY 97	97-TC-4	Deeds For Real Property Acquisition Should Be Recorded At The Courthouse Timely And Immediately Filed In The Right Of Way File Room	20.205	0	Corrective action plan was not implemented in FY 98.
FY 97	97-TC-9	Utility Agreements Should Be Pre-audited Before Being Signed	20.205	0	Corrective action plan was not implemented in FY 98.

*(3) Corrective action taken is significantly different from corrective action previously reported:*

None

*(4) Audit finding is no longer valid:*

None

